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SUBJECT: LATVIA: PENSIONS RULING COMPLICATES BUDGET, BUT DOESN'T  
SCUPPER IT

Ref: Riga 573

11. (SBU) The Latvian constitutional court ruled on December 21 that while reductions in pensions are permissible, the Government of Latvia failed to demonstrate that some USD 400 million in 2009-2010 pension reductions meant to trim the budget deficit to meet IMF and European Commission targets were sufficiently deliberative and truly necessary. The court ordered the government of Latvia to begin paying pensions at pre-cut levels effective March 1, 2010, and to make retroactive payments of some USD 180 million before July 2015.

12. (SBU) The court did not slam the door on future pension reductions, and gave the government some breathing room to make its retroactive payments phased in over a 5-year period. The government now has several options available to limit its losses: to take the politically difficult step of again raising taxes (perhaps the newly-established property taxes, which are currently very low); to address the courts' concerns by demonstrating due deliberation and a full consideration of options before enacting future pension cuts; to enact additional expenditure cuts; and to limit future losses by accelerating the planned raise in the retirement age from 62 to 65. None of these will be easy in an election year, with fractious coalition partners demanding tax cuts, but some means of addressing lenders' deficit concerns will be necessary. On paper at least (see reftel), the GOL had estimated its 2010 deficit at some USD 200 million, or 0.9%, under the European Commission target of 8.5% of GDP. Coincidentally, this leaves wiggle room to factor the ruling's impact (approximately 0.9% of GDP or USD 200 million) into the 2010 budget and still meet the original deficit reduction target.  
Garber